

PHILIPPINES ECONOMIC WRAP-UP

JULY 08-14, 2000

Summary

This week we review a setback for power sector reform, and a further slowing of export growth. Bank lending is expanding slightly, and investigation of a stock market scandal nearly leads to its own scandal. Poor weather is expected to spark stronger inflation in the next few weeks or months. We also report on the Philippine celebration of National Science and Technology Week.

These weekly reviews are available on the Embassy's web site (<http://usembassy.state.gov/manila>). We provide a longer and more detailed review of the Philippine economy in our May Economic Outlook, which can also be found on our web site.

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Market and Policy Developments

FOREX REPORT

The Philippine peso plunged this week, reaching at one point P45.15/US\$, a level it had not seen since the depth of the Asian crisis. The drop was mostly in line with the continuing slide in regional currencies such as the Thai baht and the Indonesian rupiah. Bangko Sentral ng Pilipinas (BSP, the central bank) officials were quoted as saying the bank had no intention of interfering in the market, preferring to hold on to its dollar reserves and letting the peso find its own level. The peso strengthened later in the week, with government officials confidently predicting that the currency would stabilize in the P41.50-P42/US\$ range; traders, however, suggested a new weakening could be in the cards depending on regional events. Overall the peso, which had closed at P44.03/US\$ on July 7, fell to a close of P44.52/US\$ on July 14.

Exchange Rate Tables

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
	-----	-----	-----
JUN 05	42.421	42.320	147.7
06	42.233	42.380	199.2
07	42.417	42.360	131.3
08	42.475	42.480	101.0
09	42.521	42.465	99.7
JUN 12	Markets Closed		
13	42.400	42.425	105.0
14	42.415	42.420	116.5
15	42.465	42.535	63.5
16	42.611	42.595	102.0
JUN 19	42.649	42.655	93.5
20	42.672	42.675	142.6
21	42.693	42.830	86.0
22	42.907	42.870	128.0

23	42.879	42.845	76.0
JUN 26	42.890	42.910	73.0
27	42.963	43.020	63.0
28	43.115	43.130	97.1
29	43.154	43.170	114.6
30	43.253	43.230	108.6
JUL 03	43.436	43.530	98.1
04	43.563	43.535	89.0
05	43.646	43.690	77.5
06	43.851	43.950	123.1
07	43.981	44.030	96.4
JUL 10	44.116	44.305	91.3
11	44.769	44.820	146.3
12	44.866	44.665	162.4
13	44.567	44.705	145.3
14	44.559	44.520	184.0

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

At the July 10 auction of treasury bills, the government held the line on rate increases by refusing to sell any 182-day or 364-day bills. P1.5 billion worth of each bill were offered, but all bids were rejected as "too high". Rates on the 91-day bill were unchanged (at 8.89%) with the Treasury Bureau awarding only P600 million of the of the P1 billion offered. Total tenders reached P4.156 billion against the P4.5 billion being auctioned; in previous sessions tenders far exceeded the value of bills offered. Traders blamed sagging investor confidence and fears of a ballooning deficit as reasons for the higher bids. Similar results at the July 11 auction of P3 billion worth of 7-year T-bonds saw the interest rate on the paper rise 50 basis points to 14%. Total tenders were P3.569 billion, but only P1.165 billion of awards were made.

Seeking to address the investor concerns over the fiscal deficit, Bangko Sentral ng Pilipinas (BSP, the central

bank) Governor Rafael Buenaventura told reporters on July 11 that he had advised the government to borrow its funding requirements for the remainder of the year "at the soonest time convenient". Buenaventura noted that the overnight placements with the BSP, amounting to some P168 billion last week, were more than sufficient to fund the projected P62.5 billion deficit. In this vein, the government is looking at raising up to \$300 million from domestically-held Foreign Currency Deposit Units (FCDUs) and the sale of domestic bonds.

The Philippines sold \$330 million worth of "Samurai Bonds" on Thursday, July 14. The five-year papers carry a coupon rate of 3.2%. Lead underwriters for the deal were Nikko Soloman Smith Barney and Daiwa Securities SB Capital Markets. Funds raised will help the government plug its planned deficit of P62.5 billion (and predicted by many to grow larger).

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
-----	-----	-----	-----
JUN 05	8.908	10.282	11.211
JUN 13	8.909	10.137	10.944
JUN 19	8.911	10.045	10.924
JUN 26	8.896	9.849	10.685
JUL 03	8.890	9.901	10.796
JUL 10	8.890	no sales	no sales

Source: Bureau of the Treasury

Prime Lending Rates of 15 Expanded Commercial Banks

Date of Survey	Average	Range
-----	-----	-----
JUN 08	11.1228	10.00 - 13.625
JUN 14	11.1229	10.00 - 13.625
JUN 22	11.1379	10.00 - 13.625
JUN 28	11.1806	9.50 - 13.625
JUL 05	11.1715	9.50 - 13.500
JUL 12	11.1707	9.50 - 13.500

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

Philippine stocks continued to hold steady this week. Tech stocks helped prop up the market, as did some property issues. Market activity was still thin, reflecting a lack of significant good news to boost market sentiment. Overall, the 33-share Philippine Stock Index (PHISIX) ended the week at 1553.89; its July 7 close was 1550.60.

Philippine Stock Exchange Index (PHISIX) and Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
JUN 05	1552.65	1136
06	1562.38	1222
07	1522.33	796
08	1537.13	598
09	1521.93	977
JUN 12	Markets Closed	
13	1522.15	950
14	1524.21	1468
15	1565.69	1200
16	1569.95	1225
JUN 19	1560.67	1001
20	1560.40	1121
21	1555.62	816
22	1545.90	1156
23	1542.97	966
JUN 26	1532.24	628
27	1529.37	925
28	1531.01	873

29	1532.74	767
30	1533.99	938
JUL 03	1535.65	397
04	1538.88	525
05	1539.92	587
06	1542.41	687
07	1550.60	882
JUL 10	1557.57	765
11	1563.08	738
12	1554.57	902
13	1561.52	1321
14	1553.89	641

Source: Philippine Stock Exchange

POWER SECTOR REFORM HITS A WALL

A bicameral committee trying to resolve differences between Philippine House of Representatives and Senate versions of legislation to restructure the Philippine power sector suspended hearings on Tuesday. The Philippine House had passed omnibus legislation that encompassed the restructuring of the industry and the privatization of the state-owned National Power Corporation. Senators, on the other hand, broke the legislation into several parts, and had not passed a bill on the NPC privatization. A compromise had been proposed to create a joint Legislative-Executive Committee to develop the privatization plan, which would then be "ratified" by the two houses of Congress, but House members said this would amount to double passage of their legislation and balked.

The bicam hearings ended on an amicable note, with House Energy Committee Chairman Arnulfo Fuentesbella saying "See you in September." Senate Energy Committee Chairman John Osmena will introduce a separate bill on the privatization of NPC, which hopefully can be passed by then and considered by a reconvened bicameral hearing.

U.S. DEMAND DECLINE IN MAY, EXPORTS SLOW FURTHER

Jan-May 2000 saw year-on-year export growth slow to 9.7% from 10.6% in Jan-April, largely due to a 6.6% decline in electronics exports for May. Demand from the U.S. for these products declined 24% to \$332 million, as did orders from Singapore (down 21% to \$157 million) and Japan (down 10% to \$115 million) for May alone. In recent years, electronics had been the fastest growing sector accounting for about 60% of the country's total exports, but its growth has slowed significantly in the past few months. Shipments of garments also fell 4.4% to \$200 million in May, reflecting a 5.8% fall to \$154 million in exports to the U.S. Partly offsetting May export declines were increases in sales of Input-output peripherals (up 72% to \$284 million) driven by a 90% surge to \$81 million in U.S. purchases. Despite an 8.2% fall in exports to the U.S. for May, cumulative exports to this market for Jan-May posted a 4.2% growth to \$4.2 billion from the year-ago level.

Philippine Exporters Confederation Inc. president Sergio Ortiz-Luis has remarked that exporters were worried with the recent steep fall of the peso (to P44.665/US\$ on July 12 from P43.69/US\$ on July 5 and P43.02/US\$ on June 26). Besieged by requests for a discount on future orders, many exporters are unable to close deals; a few "lock-in" orders at a lower rate (P42/US\$). Exporters want the currency to trade at its market value, but they prefer that exchange rates be stable to ensure smooth business planning, Ortiz-Luis said.

Philippine Export Performance
January - May 2000

	1999	2000
Exports (FOB, Million US\$)		
January	2,581	2,717
February	2,569	2,902
March	2,702	2,989
April	2,346	2,668
May	2,747	2,931
January-May	12,945	14,206

Growth Rate (Y/Y, in pct)

January	22.0	5.3
February	15.4	13.0
March	9.2	10.6
April	2.7	13.7
May	13.7	6.7
January-May	12.4	9.7

Source: National Statistics Office

Leading Philippine Exports
January - May 2000

	1999 (Value in Mill\$)	2000	Pct Growth (y/y)
Total Exports	12,945	14,206	9.7
Manufactures:	11,568	12,675	9.6
Electronics	7,866	8,178	4.0
Machinery and transport eqpmt	1,728	2,264	31.0
Garments & textiles	923	1,040	12.7
Other manufactures	1,051	1,193	13.5
Traditional products:	896	1,126	25.7
Minerals	239	294	23.0
Fruits & vegetables	198	234	18.2
Coconut	161	199	23.6
Other agro-based goods	193	203	5.2
Other products	105	196	86.6
Other transactions	481	405	(15.8)

Source: National Statistics Office

NON-PERFORMING LOAN RATIO DOWN SLIGHTLY

The commercial banking system's overall non-performing loan (NPL) ratio -- estimated at 14.41% as of May 2000 -- improved slightly after consecutive increases from January to April. Although banks' nominal NPL level inched up month-on-month (by 0.4% or P804 million) for a

fifth consecutive month, total loans (up 0.8%, P11.5 billion) grew at a faster pace. NPL levels would likely have been higher without the continued expansion of restructured loans, which grew by 1.6% (P1.3 billion) in May.

Total loans have been up year-on-year since November 1999, breaking from eleven months of consecutive year-on-year declines. However, the year-on-year expansion -- estimated at 3.3% in April -- has been modest thus far. Bankers generally do not expect loans this year to expand by more than 10%, as banks continue to clean up their portfolio of bad debts and foreclosed properties. Foreclosed assets stood at P102.3 billion as of May 2000, up by nearly 55% from May 1999 and 4.5% from end-1999.

 SELECTED INDICATORS FOR COMMERCIAL BANKING SYSTEM

	May 2000 -----	April 2000 -----	May 1999 -----
Amounts (P Billions)			

Total Loan Portfolio (TLP) a/	1,517.1	1,505.7	1,468.8
Non-Performing Loans (NPL)	218.6	217.8	212.3
Loan Loss Reserves (LLR)	96.1	95.2	70.8
Restructured Loans (RL)	80.9	79.6	53.8
Foreclosed Assets (FA)	102.8	100.4	66.4
Non-Performing Assets (NPA)	321.4	318.2	278.7
Total Assets (TA)	2,705.8	2,659.3	2,506.6

Ratios (In %)

NPL/TLP	14.41	14.46	14.45
RL/TLP	5.33	5.29	3.66
LLR/NPL	43.95	43.72	33.36
LLR/TLP	6.33	6.32	4.82
FA/TA	3.80	3.78	2.65
NPA/TA	11.88	11.97	11.12

a/ Includes interbank loans

 Source: Bangko Sentral ng Pilipinas

BANK NOTES

Orient Bank: The Bangko Sentral recently filed an administrative complaint with the Supreme Court against a judge who granted Orient Bank owner president and chief executive officer Jose Go permission to leave the country from June 20-July 15. The same judge also had reportedly granted Mr. Go to permission to go abroad last May. The BSP noted that the judge ignored a hold-departure order (HDO) issued in February, raising risks of Mr. Go escaping prosecution each time he was allowed to leave the Philippines. Orient Bank closed in 1998 -- the first local commercial bank to do so during the Asian crisis. Mr. Go faces charges of falsification and violation of banking laws (including excessive lending to officers, directors and related parties) for entering into allegedly fraudulent transactions which contributed to the bank's collapse. The incident has aggravated skepticism over how quickly -- and how far -- the case will prosper through the Philippines' legal system.

Development Bank of Singapore: The Development Bank of Singapore (DBS) -- which owns 60% of DBS Bank Philippines Inc. -- has reportedly begun discussions to acquire the shares of the commercial bank's minority stockholders. The new banking law opened a seven-year window during which a foreign bank may own up to 100% of a local bank, increasing the 60% foreign equity limit which used to apply. DBS appears to be seriously working to increase its Philippine presence. The Singaporean bank also owns more than 20% of the merged Bank of the Philippine Islands and Far East Bank.

BW RESOURCES -- THE DRAMA CONTINUES

After nine months of investigation and several postponements, disagreement within the Securities and Exchange Commission (SEC) threatened to stall the filing of an official complaint before the Department of Justice (DOJ) against parties allegedly involved in the BW Resources stock manipulation scandal. The head of the SEC's prosecution department had insisted on dropping certain individuals and brokerage firms from the final report and complaint being finalized for submission to

the DOJ. The position put the official in conflict with the SEC investigators assigned to the case, as well as with the commission en banc. As the week drew to a close, SEC Chair Lilia Bautista told reporters that the commission had replaced the SEC official as head of the prosecution department. SEC officials told the Embassy that the party concerned had gone on leave after that decision, probably for good.

SEC Chairwoman Bautista announced in press interviews that the SEC would file its final report and complaint with the DOJ on or before July 18 (Tuesday) -- somewhat later than the July 14 (Friday) target announced earlier in the week. Although declining to give details, she indicated that the complaint would involve some 38 individuals and eight brokerage firms. She emphasized that the SEC complaint hoped to "send a message to the whole world that the SEC does not and will not tolerate any kind of market manipulation". BG

WEATHER RELATED AGRICULTURAL LOSSES

According to preliminary Department of Agriculture estimates, two tropical storms which hit Luzon during the first week of July caused some P265 million worth of agricultural losses. The fishery subsector appears to have been hardest-hit with losses worth P158 million (59.9% of total agri damages), followed by crops (P104 million, 39.3%), and livestock (P2 million, 0.8%). N.B. A third storm will cross the island of Luzon this weekend.

These losses represent about 0.2% of the gross value of first quarter agricultural sector output. Although not a dramatic figure per se, those losses do demonstrate the susceptibility of agriculture to the vagaries of nature -- adding further to the current uncertainties triggered by the Mindanao conflict. Partly because of unfavorable weather and pest infestations, agricultural output (which contributes about 20% of annual GDP) barely expanded year-on-year during the first quarter, missing government expectations of 2.2% sectoral growth by a wide margin. Private agricultural economists seriously doubt that the sector will be able to recover strongly enough in succeeding quarters to hit the government's 3-3.5%

forecasted full-year expansion. The government's official full-year GDP growth target remains at 4-5%, but economic planning officials now expect actual GDP growth to end 2000 at the lower end of that range.

The more immediate impact of the poor weather is likely to be on inflation. Consumers are bracing themselves for more expensive food prices which normally follow weather-related supply damages and bottlenecks. Upward pressure on the heavily-weighted food index combined with recent fuel price hikes are expected to nudge up consumer price inflation this month (from June's 3.9% year-on-year rate).

EXTERNAL DEBT AND BOP

External Debt: According to latest Bangko Sentral estimates, the Philippines' recorded foreign debt stood at \$52.4 billion as of March 2000, up by \$205 million from the end of 1999. BSP officials noted the continued bias for medium- to long-term maturities, which comprised the bulk (89%) of outstanding foreign exchange liabilities. The BSP's \$16 billion international reserve cushion stands at about 2.7 times the level of short-term foreign debt. About half of the outstanding obligations are owed to official creditors (i.e., multilateral financing institutions, foreign governments and their credit/export agencies) -- generally granted at more concessional terms. The country's debt service burden -- 12.3% of goods and services exports during the first quarter -- remains manageable thus far despite the nominal increase in external obligations.

Balance of Payments: More detailed balance of payments (BOP) statistics show that the Philippines' current account remained in surplus (P1.6 billion, 8% of GNP) during the first quarter of the year. That first quarter current account balance was slightly higher than in the first quarter of 1999 (\$1.5 billion). The capital account, however, slipped from a first quarter 1999 surplus (\$763 million) to a first quarter 2000 deficit (\$574 million) -- reflecting lower net inflows of foreign loans and net outflows of foreign investments. The first quarter BOP surplus narrowed from \$1.9 billion to less than \$1 billion year-on-year. Boosting the weak state of

investor confidence remains an especially important challenge for sustainable BOP financing and economic growth. Net foreign investments slipped to a \$206 million deficit (from a \$567 million surplus during the first quarter of 1999) as net inflows of foreign direct capital contracted and net portfolio capital shifted to a deficit (reflecting the scandals and uncertainties which have hounded the Philippine stock market). Although details are not yet available, preliminary estimates -- computed from the change in BSP's net international reserve position -- indicate that the Philippines' BOP surplus had narrowed to under \$400 million by the end of 2000's first semester.

NATIONAL SCIENCE AND TECHNOLOGY WEEK

July 10 was the kick-off of the 42nd National Science and Technology Week in the Philippines. The week to recognizes the contributions of Philippine scientists, researchers, inventors and institutions through a series of symposia and fora, and gives the Administration an opportunity to highlight its advocacy of science and technology. In line with the Administration's medium-term development strategy, the Department of Science and Technology (DOST) hopes to improve science and technology acquisition and application of cutting edge technologies through reinvigorated training of scientists, technologists, and engineers. Emphasis is on strengthening the admittedly weak link between Philippine research and development and the needs of the market. The various activities of the National Science and Technology week will highlight DOST's six flagship projects, designed to focus R&D on specific market needs. The projects are: the COMPETE Project (Comprehensive Program to Enhance Technology Enterprises); the IPCT (Integrated Program on Cleaner Production Technologies); establishment of a new Packaging R&D Facility; expansion of regional Metrology Centers; an S&T program for Mindanao; and an S&T intervention program for the Poor, Vulnerable, and Disabled. Project COMPETE is a five-year program to catalyze R&D among small and medium enterprises. Through the program, a Virtual Center for Technology Innovation in Information Technology (sic) has been established to provide training infrastructure and facilities, including a microelectronics lab. The center

is working to develop learning hubs in all 15 regions of the country to complement private sector-developed science and technology industrial parks. The IPCT is supported by an assistance package from the Asian Development Bank to promote sustainable development and strengthen Philippine competitiveness through adoption of cleaner production technologies and waste minimization techniques in agriculture and industry.